

# GREEN DIGEST

EVERYTHING THAT CONCERNS YOUR MONEY

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69 MINUTES

# BALLOT

*of a billion dreams*

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## Greenvissage Business Consulting LLP

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### PUNE

106, Mayfair Tower I,  
Wakdewadi, Pune – 411005, India

[Google Maps](#)

7, Kunal Puram Commercial Complex,  
Opp Atlas Copco, Old Mumbai – Pune Highway,  
Dapodi, Pune – 411012, India

[Google Maps](#)

### MUMBAI

904, 9th Floor, Bhimiraj Costarica,  
Off Palm Beach Road, Sector 18, Sanpada,  
Navi Mumbai – 400705, India

[Google Maps](#)

Email: [info@greenvissage.com](mailto:info@greenvissage.com)

Call: +91 20 6764 0900



# THE BIG STORY

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## Ballot of a billion dreams – Financial dynamics of elections in the world’s largest democracy, and its impact on the economy.



### Background

In the world's largest democracy, the spectacle of Indian elections is not just a political saga but a colossal financial endeavour that reverberates through every corner of the economy. National elections are pivotal moments in any country's democratic process. They offer citizens the opportunity to shape the future direction of their nation by choosing their representatives and leaders. From the glitzy billboards in bustling metropolises to the bustling markets of rural India, the election season transforms the economic landscape into a high-stakes arena of expenditures, investments, and economic stimulants. This financial juggernaut mobilizes billions of dollars, driving industries, shaping markets, and leaving an indelible mark on the nation's economic fabric. As the campaign trails heat up, a deeper look at the economics of Indian elections reveals a complex web of fiscal dynamics that underpin this democratic exercise.

### Cost of 'Right to Vote'

The Indian government spent approximately INR 60,000 crore (around USD 8 billion) on the 2019 General Election. This figure includes the costs of deploying security personnel and election officials and conducting the entire process across 543 parliamentary constituencies. In comparison, The United States is known for its high levels of election spending reportedly seeing spending of over USD 14 billion in the 2020 Presidential Elections, making it the most expensive election in American history. On average, state elections cost significantly less than national elections, but they still represent a major financial outlay. For instance, the 2022 Uttar Pradesh state assembly election cost the government over INR 800 crore (around USD 100 million). A significant portion of the expenditure is allocated to the Election Commission for administrative costs, including personnel salaries, transportation, and logistics. Security arrangements, which include the deployment of police and paramilitary forces, form a considerable part of the costs. Ensuring free and fair elections in a country as diverse and populous as India requires substantial security outlays. Investment in technology, such as

Electronic Voting Machines (EVMs) and Voter-Verified Paper Audit Trails (VVPATs), has increased. The cost of purchasing and maintaining these machines contributes to the rising expenditure. Expenditure also covers voter awareness campaigns, setting up polling booths, and other logistics. In 1996, the cost was much lower, at around INR 500 crore (approximately USD 67 million). However, there has been a sharp increase in election expenditure over the subsequent decades. In 2009, the government spent approximately INR 10,000 crore (around USD 1.3 billion). This was one of the earlier elections where significant investments were made in modernizing the election process, including the use of EVMs. In 2014, the expenditure increased significantly to around INR 35,000 crore (around USD 4.8 billion). The cost rise was attributed to the larger scale of security arrangements and extensive use of technology. An increase in the electorate and the need to cover a wider geographical area contribute to higher costs. Investment in modern technologies, including EVMs and VVPATs, and the need to ensure cybersecurity have escalated expenses. Rising costs are also due to enhanced security measures to ensure peaceful elections, particularly in sensitive regions. Adherence to strict election laws and the need to provide transparent, free, and fair elections have increased administrative costs.

## Spending by Political Parties

In India, election spending by political parties and candidates is regulated by the Election Commission of India (ECI) under the Representation of the People Act, 1951 and the Conduct of Elections Rules, 1961. These regulations aim to ensure transparency, accountability, and fairness in electoral competition while curbing excessive spending and the influence of money in politics. The ECI imposes expenditure limits on candidates and political parties contesting elections to various legislative bodies, including the Lok Sabha (House of the People), Rajya Sabha (Council of States), state legislative assemblies, and local bodies such as municipal corporations and panchayats. Expenditure limits are set based on the size of the electorate and the geographical area of the constituency. The limits may vary for different types of elections and

constituencies. Candidates and political parties are required to adhere to these expenditure limits during the election campaign period, which typically spans several weeks leading up to the polling day.

Candidates and political parties are mandated to maintain detailed records of all election-related expenses incurred during the campaign period, including expenditures on advertising, campaign materials, travel, rallies, public meetings, and campaign staff salaries. Within a specified timeframe after the conclusion of elections, candidates and political parties are required to submit expenditure statements to the ECI, disclosing their campaign expenses and sources of funding. The expenditure statements must be accompanied by supporting documents, vouchers, bills, and receipts to verify the authenticity and accuracy of the declared expenses. The ECI monitors election expenditure through various mechanisms, including surveillance teams, flying squads, and video surveillance, to detect violations of expenditure limits and other campaign finance regulations. Special expenditure observers may be appointed by the ECI to oversee the conduct of elections in high-spending constituencies or areas with a history of electoral malpractices. Violations of expenditure limits or failure to comply with disclosure requirements can result in penalties, including disqualification of candidates, forfeiture of security deposits, or derecognition of political parties.

Political parties are required to maintain detailed accounts of their income and expenditure, including donations received from individuals, corporations, and other entities, and report them to the ECI and the Income Tax Department. Donations above a certain threshold must be reported to the ECI and the Income Tax Department with details of the donor's identity, address, and contribution amount. Anonymous donations are prohibited. Political parties are also required to submit annual audit reports of their finances to the ECI, which are made available to the public for scrutiny and transparency. The ECI provides public funding to recognized national and state political parties to support their election-related activities, including election campaigns, candidate training, and voter outreach programs. Public funding is allocated based on the

performance of political parties in previous elections, their representation in elected bodies, and other criteria determined by the ECI. Public funding aims to reduce parties' dependence on private donations, promote transparency in campaign finance, and ensure a level playing field for all political parties.

## Election Funding around the world

Government spending on national elections varies widely across countries, primarily influenced by factors such as the country's economic development, political system, population size, and electoral regulations. In some nations, election spending is primarily funded by the government itself through public funds allocated for electoral processes. In contrast, in others, it relies heavily on private donations from individuals, corporations, or political parties.

**Publicly Funded Systems** – Countries like Norway, Sweden, and Germany have publicly funded election systems where the government provides a significant portion of the funding for political parties and election campaigns. Public funding aims to ensure fairness, transparency, and equal opportunity for all political parties and candidates. Public funding can cover various expenses, including campaign advertisements, candidate debates, administrative costs, and voter education initiatives. The amount allocated for election spending in publicly funded systems is typically determined through legislative processes and may vary depending on the electoral cycle and the number of participating parties.

**Private Funding Dominance** – In some countries, particularly those with less developed democratic institutions or weaker regulatory frameworks, election spending is predominantly financed by private donations from wealthy individuals, corporations, or interest groups. Private funding dominance can raise concerns about the influence of money in politics, potential corruption, and unequal access to the political process. Efforts to reform campaign finance laws and strengthen oversight mechanisms are often necessary to address these challenges.

**Mixed Funding Systems** – Many democracies, including the

United States and the United Kingdom, operate under mixed funding systems, where government funding supplements private donations. In these systems, political parties and candidates often rely on a combination of public subsidies, private contributions, and fundraising efforts to finance their election campaigns. Mixed funding systems can lead to concerns about the influence of wealthy donors or special interest groups on the electoral process. Regulations and disclosure requirements are implemented to mitigate the risk of undue influence and ensure transparency in campaign financing.

## Impact on the Economy

Elections can have significant impacts on the economy, both in the short term and the long term. These impacts can vary depending on factors such as the political context, the outcome of the election, and the economic policies proposed or implemented by the winning party or candidate.

**Policy Uncertainty** – Elections often create uncertainty about future government policies, particularly regarding taxation, spending, regulation, and trade. This uncertainty can lead to cautious behaviour among businesses and consumers, affecting investment decisions, hiring practices, and consumer spending patterns. In the short term, heightened uncertainty may dampen economic activity as businesses postpone investments and consumers hold back on major purchases.

**Fiscal Policy Changes** – The outcome of an election can result in changes to fiscal policy, including government spending and taxation. For example, a new government may implement fiscal stimulus measures to boost economic growth or pursue austerity policies to reduce budget deficits. The timing and magnitude of such policy changes can influence economic growth, inflation, and employment levels.

**Monetary Policy Expectations** – Elections can also influence expectations about future monetary policy actions by central banks. Political developments that are perceived as inflationary or deflationary may affect bond yields, exchange rates, and inflation expectations. Central banks may adjust their

monetary policy stance in response to changes in economic conditions or to support the objectives of the elected government, such as promoting full employment or price stability.

**Investor Sentiment** – Elections can impact investor sentiment and market volatility, particularly in the financial markets. Uncertainty surrounding election outcomes or policy proposals may lead to increased market volatility as investors reevaluate their investment strategies and risk exposures. Stock markets, bond markets, and currency markets may experience fluctuations in response to changing political dynamics and expectations about future economic policies.

**Business Confidence** – Elections can influence business confidence and sentiment, affecting corporate investment decisions, expansion plans, and hiring intentions. Businesses may delay or accelerate investment projects depending on their assessment of the economic and regulatory environment under different political scenarios. A favourable election outcome perceived as business-friendly may boost confidence and encourage investment, while uncertainty or unfavourable policy proposals may have the opposite effect.

**International Trade and Relations** – Changes in government leadership resulting from elections can impact international trade agreements, tariffs, and diplomatic relations. Shifts in trade policy, such as the imposition of new tariffs or the renegotiation of trade deals, can affect exporters, importers, and supply chains, with implications for economic growth and employment. Trade tensions or disruptions resulting from changes in government policies may also contribute to global economic uncertainty.

**Long-Term Structural Reforms** – Elections can provide an opportunity for governments to implement long-term structural reforms aimed at enhancing economic competitiveness, productivity, and sustainability. Policy initiatives related to education, healthcare, infrastructure, innovation, and labour market reforms can have lasting impacts on economic growth, income distribution, and social welfare. The outcome of elections may influence the pace and direction of such reforms, depending on the priorities and political consensus of the elected government.

*(References – Business Standard, New Indian Express, Wikipedia)*



# EXPERT OPINION

Greenvissage

## Unveiling the Tax Veil – Taxation of Political Parties in India

By Amit Chandak, Managing Partner, Greenvissage



### Introduction

In the intricate tapestry of India's democracy, political parties emerge as the weavers of governance, shaping policies and narratives that resonate across the nation. They play a pivotal role in shaping governance, policy formulation, and societal discourse. Yet, behind the grandeur of political discourse lies a realm often obscured from public view — the taxation landscape governing these very entities. The financial operations of political parties often raise questions regarding transparency, accountability, and compliance with taxation laws. Like threads interwoven in a complex fabric, the taxation of political parties in India traverses through a maze of laws, exemptions, and compliance measures, shaping the contours of fiscal responsibility and democratic integrity. The taxation framework for political entities in India is governed by a complex interplay of statutes, including the Income Tax Act, of 1961, and the Representation of the People Act, of 1951. Let us unravel the nuances that define the financial realm of Indian politics.

### Legislative Framework

The Income Tax Act, 1961, forms the bedrock of taxation for political parties in India. Section 13A of the Act provides for tax exemptions for political parties, subject to certain conditions. Political parties enjoy 100% tax exemption from all sources of income. Under Section 13A of the Income Tax Act, political parties are granted a complete exemption from income tax. However, this exemption is contingent upon the annual filing of income tax returns to the Income Tax Department. According to this provision, political parties are exempt from paying income tax on their income, provided they fulfil the required criteria. Political parties seeking tax exemption must be registered with the Election Commission of India under Section 29A of the Representation of the People Act, 1951. This registration ensures that parties adhere to certain eligibility criteria, including internal democracy and compliance with constitutional principles. To avail of tax exemptions, political parties are required to maintain audited books of accounts, detailing their income and expenditure. Transparency in



financial reporting is essential for ensuring accountability and preventing misuse of funds. Political parties must file annual returns with the Election Commission, declaring their income and expenditure. This requirement enhances transparency and enables regulatory authorities to monitor the financial activities of political parties.

## Exemptions and Limitations

Political parties are exempt from paying tax on donations received by them, provided such donations are below a certain threshold and are received through permissible modes. However, donations exceeding the prescribed threshold may attract taxation, necessitating careful scrutiny of fundraising activities. Income generated from investments made by political parties, such as interest on bank deposits or dividends from stocks, is exempt from taxation. This provision incentivizes prudent financial management by political parties. Political parties are allowed to engage in certain non-political activities, such as publishing newsletters or organizing cultural events, without jeopardizing their tax-exempt status. However, income derived from commercial activities or unrelated business ventures may be subject to taxation, emphasizing the importance of maintaining a clear distinction between political and non-political endeavors.

Accessing the income tax returns of a political party requires drafting a Right to Information (RTI) request to the Income Tax Department of the respective city where the party is registered. Examples of such RTIs and their corresponding responses can be found online. An ITR filed by a political party typically comprises five essential components - Balance Sheet, Income and Expenditure Account, Schedules, Contribution Report and Assessment Order. An assessment order is issued by the Income Tax Department if the filed returns of a political party undergo scrutiny. This notice mandates the party's presence for assessment proceedings, typically conducted within the next financial year. Donations listed in the ITR represent the total contributions received during the financial year, irrespective of the amount, while the report submitted to the Election Commission of India details donations above INR 20,000, including donor information and payment modes.

## Compliance Requirements

Compliance with taxation laws is paramount for political parties to uphold their integrity and credibility. Political parties must adhere to prescribed timelines for filing income tax returns and annual statements with the Election Commission. Failure to comply with these deadlines may result in penalties or loss of tax-exempt status. Maintaining accurate records of financial transactions, including donations received and expenditure incurred, is essential for ensuring transparency and facilitating audits by regulatory authorities. Political parties are expected to implement robust internal controls and governance mechanisms to prevent misuse of funds and ensure compliance with taxation laws. This entails establishing oversight mechanisms, segregating duties, and promoting ethical conduct among party members. Similar to individual taxpayers, registered political parties must file their income tax returns annually. As per Section 139(4B), these returns for a particular financial year must be filed and audited by the 30th of September. Political parties employ either cash or accrual accounting methods. While cash accounting records transactions upon cash receipt, accrual accounting captures transactions when they occur, providing a more comprehensive financial picture. The Institute of Chartered Accountants of India recommends the accrual basis. Diverse accounting methods among political parties have raised concerns regarding the adequacy of auditing techniques and the transparency of financial disclosures. Establishing standardized procedures for filing returns could enhance accountability. ICAI advocates for a standardized format for filing ITR, incorporating elements from both cash and accrual accounting methods. These recommendations seek to streamline the auditing process and ensure comprehensive financial disclosure.

## Tax Scams by Political Parties

Tax scams perpetrated by political parties in India have been a contentious issue, often generating headlines and sparking public outrage. These scams typically involve various methods of tax evasion, fraud, and misuse of public funds for personal



or party gains. While not all political parties engage in such activities, instances of corruption and malpractice have been documented across the political spectrum. One common type of tax scam involves underreporting or concealing income to avoid paying taxes. Political parties may receive significant donations from individuals or corporations, which are often not accurately disclosed in their financial statements. These undisclosed funds can be used for various purposes, including election campaigns, personal expenses of party leaders, or even illegal activities such as bribery and corruption. By hiding these sources of income, political parties evade taxes and distort the transparency of their financial operations. Another form of tax scam is the misuse of tax-exempt status granted to political parties under Indian law. Political parties enjoy certain tax benefits, such as exemption from income tax on donations received. However, some parties exploit this privilege by accepting donations from questionable sources, including shell companies or foreign entities with vested interests. These donations may be used to fund political activities without proper accountability or transparency, undermining the integrity of the democratic process. Furthermore, political parties in India have been implicated in scams involving misappropriation of government funds and resources. For example, funds allocated for public welfare programs or infrastructure development projects may be siphoned off by party officials for personal enrichment or to finance electoral campaigns. Such embezzlement not only deprives citizens of essential services but also erodes public trust in the government and political institutions. The role of black money in financing political activities is another aspect of tax scams in India. Black money refers to income earned through illegal means or not declared for tax purposes. Political parties may receive contributions in the form of black money, which is often untraceable and used to circumvent campaign finance regulations. This clandestine funding allows parties to bypass legal limits on election spending and gain an unfair advantage over their opponents, distorting the democratic process and undermining the principle of equal opportunity in elections. The nexus between politicians, bureaucrats, and business interests further facilitates tax scams in India. Corrupt officials may collude with political leaders to manipulate tax laws, evade scrutiny, and protect vested interests. This collusion extends

beyond tax evasion to other forms of corruption, such as kickbacks, cronyism, and favouritism in government contracts and regulatory decisions. The entrenchment of such networks perpetuates a culture of impunity, where those in power can act with impunity, knowing that they are unlikely to face consequences for their actions. Addressing tax scams by political parties requires a multifaceted approach, including legal reforms, enforcement mechanisms, and public awareness campaigns. Strengthening regulatory oversight, enhancing transparency in political financing, and empowering independent investigative agencies are essential steps to combat corruption and hold accountable those who abuse their positions of power for personal or party gains. Additionally, fostering a culture of integrity, accountability, and civic engagement is crucial to building a more transparent and accountable political system in India. Only through concerted efforts by government, civil society, and the public can the scourge of tax scams be effectively addressed and the foundations of democracy strengthened.

## Conclusion

The taxation regime for political parties in India has significant implications for democratic governance and transparency. Despite the existence of statutory provisions governing taxation for political parties, enforcement mechanisms are often weak, leading to instances of non-compliance and misuse of funds. Strengthening regulatory oversight and enhancing accountability mechanisms is imperative to address this issue. There is a pressing need for greater transparency and disclosure regarding the sources of funding and expenditure patterns of political parties. Enhanced disclosure requirements and stricter enforcement of reporting standards can foster greater public trust and confidence in the political process. Comprehensive electoral finance reforms, including measures to regulate campaign spending, cap donations from corporate entities, and promote grassroots fundraising, are essential for curbing the influence of money in politics and promoting a level playing field for all stakeholders.

*(References – Times of India, The Week, Wikipedia)*



# GREENVISSAGE EXPLAINS

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## What is National Health Claim Exchange?

The recent launch of the National Health Claim Exchange (NHCX) by the National Health Authority (NHA) and the Insurance Regulatory and Development Authority of India (IRDAI) marks a significant milestone in the Indian healthcare and health insurance sectors. The National Health Claim Exchange (NHCX) is a digital platform designed to simplify and expedite the health insurance claims process in India. It aims to act as a centralized hub for all health claims, reducing the administrative burden on hospitals and ensuring a seamless, paperless, and secure environment for managing health insurance claims. The NHCX is poised to revolutionize the way health insurance claims are processed, promising a streamlined, efficient, and secure platform that benefits patients, hospitals, and insurance companies alike. The NHCX centralizes health claims, eliminating the need for multiple portals and manual paperwork. This consolidation is expected to reduce the administrative burden on hospitals and provide a more uniform approach to managing claims. By moving to a digital platform, the NHCX ensures a paperless process, enhancing data security and reducing the risk of errors associated with manual handling of claims. The platform aims to expedite the claims process, potentially reducing waiting times for patients and minimizing out-of-pocket expenses. This efficiency can be particularly beneficial in emergency medical situations where prompt claim processing is crucial. Through the uniform presentation of data and centralized validation, the NHCX could lead to more standardized healthcare pricing, bringing greater transparency and fairness to healthcare costs. The NHCX enhances the ability to detect and prevent fraudulent claims through robust data verification mechanisms, protecting both insurers and policyholders. India's healthcare system faces several challenges,

including high out-of-pocket expenditures, inefficiencies in claim processing, and high operational costs for hospitals. A significant portion of healthcare expenses in India are paid out-of-pocket by households, with many not covered under any insurance scheme. The NHCX's streamlined claims process can lead to faster claim settlements, reducing financial burdens on patients and incentivizing more people to use health insurance. Different insurance companies have varying requirements and processes, leading to delays and errors in claim decisions. The NHCX aims to create a standardized system that simplifies and speeds up claims processing, providing greater transparency and efficiency. Currently, hospitals in India deal with a multitude of portals and manual processes for submitting and tracking claims. The NHCX's centralized platform can significantly reduce these administrative burdens, freeing up resources for better patient care. Full integration of the NHCX platform requires significant effort and training. Smaller hospitals, especially in rural areas, may lack the necessary IT infrastructure or trained staff to adopt the new system, potentially slowing down its implementation. Successful adoption of the NHCX relies on building trust among policyholders and ensuring efficient service delivery. Historical communication gaps and complexities between hospitals and insurance companies need to be addressed to foster collaboration. Handling sensitive health and financial data on a centralized platform requires robust cybersecurity measures. Ensuring data privacy and preventing breaches are critical to maintaining trust and safeguarding the platform. The introduction of the NHCX aligns with several government initiatives aimed at expanding health insurance coverage and reducing healthcare costs. (References – *The Hindu, Indian Express, Deccan Herald*)



## Why did LIC never sell Health Insurance policies?

The Life Insurance Corporation of India (LIC) has recently shown interest in entering the health insurance sector. Given its stature as India's largest financial institution and dominating the life insurance market with a 75% share, this move raises several questions. Why has LIC, a colossal entity in the insurance domain, refrained from venturing into health insurance until now? And what has changed its stance? The timing of LIC's interest in health insurance is notable. Health insurance is becoming increasingly important in India, with a growing awareness of the financial risks associated with serious illnesses and medical emergencies. The COVID-19 pandemic has highlighted the critical need for comprehensive health coverage, leading to a surge in health insurance penetration across the country. LIC's potential entry into health insurance could provide much-needed competition to existing players, fostering innovation and possibly leading to more affordable and comprehensive health insurance options for consumers. Contrary to the popular belief that LIC has never engaged in health insurance, the corporation does offer products that cover medical expenses. An example is the LIC Arogya Rakshak plan, which provides a fixed benefit for specific health risks. For instance, the plan might pay out a predetermined sum of INR 2.5 lakhs for a coronary artery bypass surgery, irrespective of the actual medical costs incurred. This approach contrasts sharply with the typical indemnity-based health insurance plans, which cover the actual expenses incurred during hospitalization, up to a predefined limit. The flexibility of indemnity plans makes them more attractive as they provide comprehensive coverage for various medical expenses, including those that may arise from unforeseen complications.

The primary reason for LIC's limited presence in the health

insurance market lies in regulatory constraints. The Insurance Regulatory and Development Authority of India (IRDAI) mandates that life insurance and general insurance (which includes health insurance) require separate licenses. LIC, being licensed primarily as a life insurer, is restricted from selling indemnity-based health insurance products or introducing specialized health plans tailored for different demographics or medical conditions. Historically, LIC was once a composite insurer, offering both life and general insurance products through its subsidiary, Oriental Insurance. However, in 1972, the Indian government nationalized general insurance companies and established four specialized entities for general insurance. This bifurcation effectively restricted LIC's operations to life insurance, leaving general insurance, including health, to other specialized entities. Recently, there has been considerable discussion about the possibility of reintroducing composite licenses, which would allow companies to offer both life and general insurance products under a single entity. This regulatory change could enable LIC to enter the health insurance market comprehensively. Although the timeline for such regulatory amendments remains uncertain, LIC is preparing for this potential shift by setting the groundwork for rapid expansion into health insurance once the regulatory environment becomes favorable. LIC's strategy to enter the health insurance market involves pursuing inorganic growth. Instead of building a health insurance division from scratch, LIC plans to acquire stakes in existing health insurance companies. This approach allows LIC to leverage established networks, expertise, and customer bases to swiftly establish a significant presence in the health insurance sector.

(References – Hindustan Times, The Economic Times, The Hindu)



## Is Credit Default Swaps a boon for mutual fund investors?

The Securities and Exchange Board of India (SEBI) recently proposed a significant change for the mutual fund industry - allowing them to participate in the credit default swap (CDS) market. This move has the potential to improve risk management for mutual funds and offer more diversified investment options for investors. Credit Default Swaps (CDS) are a type of financial derivative that functions similarly to insurance for lenders. They are contracts between two parties, where the buyer of the CDS pays a periodic fee to the seller in exchange for protection against the risk of default by a borrower or issuer of a bond. The CDS is a financial agreement functioning like an insurance policy for bond investments. The borrower or the issuer of the bond whose default risk is being insured is called as Reference entity. The entity selling the CDS of reference entity is called seller who agrees to compensate the buyer in case the borrower defaults. The entity who purchases these CDS, often a lender or investor, is called a buyer who hedges against the risk of default on a particular loan or bond. For example, if a bank lends money to a company and wants to protect itself against the risk of that company not paying back the loan, the bank can buy a CDS from another financial institution. If the company defaults, the CDS seller compensates the bank for the losses.

SEBI's proposal outlines a framework for mutual fund participation in the CDS market. Mutual funds can buy CDS protection for both investment-grade and below-investment-grade bonds. Mutual funds with sufficient

liquidity can also sell CDS contracts, allowing them to potentially profit from market fluctuations. To prevent excessive risk, SEBI proposes a cap on a mutual fund's total CDS holdings (bought and sold) at 10% of its Assets Under Management (AUM). Mutual funds will be required to disclose their CDS positions regularly to ensure transparency for investors. By buying CDS, mutual funds can mitigate the risk of losses if a bond issuer defaults. This allows them to invest in a wider range of bonds, including those with slightly lower credit ratings, potentially increasing returns. CDS can be used to manage a portfolio's overall risk exposure. By strategically buying and selling CDS contracts, fund managers can fine-tune their risk profile. Increased mutual fund participation in the CDS market could lead to a wider variety of investment products with varying risk-reward profiles. By allowing mutual funds to better manage risk, SEBI's proposal could potentially lead to more stable returns for investors.

SEBI's proposal to allow mutual funds to participate in the CDS market has the potential to benefit both mutual funds and investors. By offering more risk management tools and potentially more diversified products, this change could lead to a more robust and attractive mutual fund industry in India. However, staying informed about CDS and associated risks remains crucial for investors before making investment decisions.

*(References – Business Standard, Live Mint, Financial Express)*



## What are Exchange Traded Funds?

Exchange-Traded Funds (ETFs) have rapidly emerged as a compelling investment option in India, offering a unique blend of the flexibility of stocks and the diversified exposure of mutual funds. ETFs are investment funds traded on stock exchanges, much like individual stocks. Each ETF holds a diversified portfolio of assets, which can include stocks, bonds, commodities, or a mix of these. They are designed to track the performance of a specific index or asset class. The key attributes of ETFs – such as their ability to be traded throughout the trading day and their typically lower expense ratios – make them an attractive option for a wide range of investors. There are various types of ETFs depending on the underlying assets. Equity ETFs track equity indices like the Nifty 50 or the Sensex. They provide investors with a broad exposure to the stock market, reflecting the performance of the underlying index. Debt ETFs invest in a variety of fixed-income securities such as government bonds and corporate bonds. They are suited for investors seeking stable returns with lower risk compared to equities. Gold ETFs track the price of gold and offer a convenient way for investors to invest in the precious metal without having to handle physical gold. International ETFs allow Indian investors to gain exposure to global markets by tracking indices or sectors from other countries. Sectoral ETFs focus on specific sectors like technology or pharmaceuticals, or themes such as ESG (Environmental, Social, and Governance) investing, providing targeted exposure. Hybrid ETFs combine multiple asset classes, offering a balanced approach to risk and return by investing in both equities and bonds. The ETF market in India has grown exponentially, driven by several key factors. Growing investor awareness about the benefits of ETFs has contributed to their popularity. Educational

campaigns by financial institutions and media coverage have played a significant role in this regard. The Securities and Exchange Board of India (SEBI) has fostered a conducive environment for ETFs by implementing supportive regulations and encouraging transparency. Institutional investors, including pension funds and mutual funds, have increasingly embraced ETFs for their cost-effectiveness and ease of access to diverse asset classes. The launch of a variety of ETFs, including sector-specific and international options, has provided investors with more choices to meet their investment needs. ETFs offer instant diversification by pooling together various securities, reducing the risk associated with individual investments. With typically lower expense ratios compared to mutual funds and no load fees, ETFs are a cost-effective investment option. Being traded on stock exchanges, ETFs provide liquidity and flexibility, allowing investors to buy and sell shares throughout the trading day. ETFs disclose their holdings daily, providing investors with clear visibility into their investments. ETFs are structured to be more tax-efficient than mutual funds, as they generally incur fewer capital gains distributions. Despite their advantages, ETFs in India face several challenges that need to be addressed. While awareness is growing, many retail investors are still unfamiliar with how ETFs work and how they can be integrated into their investment strategies. Some niche ETFs, particularly those focusing on specific sectors or themes, may experience lower liquidity, making it challenging for investors to execute large trades without affecting the market price. ETFs aim to replicate the performance of an index, but discrepancies between the ETF's performance and the index i.e. tracking errors can occur, impacting returns. *(References – AMFI, Investopedia)*



# COMPLIANCE UPDATES

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## Goods and services tax

■ **GST Dispute Resolution Goes Digital** India's Goods and Services Tax Network (GSTN) is set to overhaul the dispute resolution system for Goods and Services Tax (GST) by digitizing the entire appeal process. This digital transformation aims to tackle the significant backlog of pending GST-related disputes at the appellate level. A dedicated e-portal is expected to be launched before all benches of the GST Appellate Tribunal (GSTAT) become fully operational. The government targets to have all GSTAT benches functional by January 2025. The digital portal will allow for electronic filing of appeals, significantly reducing paperwork and administrative burdens. While some experts acknowledge the potential benefits, others caution that fully implementing this ambitious vision may take time. Currently, the government is actively appointing judicial and technical members to strengthen GSTATs. Beyond digitization, experts suggest additional measures to expedite appeals. These include increasing the number of GSTAT benches, appointing more qualified members to address the backlog, and implementing stricter timelines for hearings and resolutions. (Financial Express)

■ **CBIC Clarifies Process for Early Recovery of GST Dues** The Central Board of Indirect Taxes and Customs (CBIC) has issued instructions to ensure consistent application of Goods and Services Tax (GST) recovery procedures. Under the GST law, authorities typically wait three months after issuing a demand order before initiating recovery actions. However, the CBIC acknowledges instances where earlier recovery might be necessary in the interest of revenue. The new instructions establish a clear process for such situations. Local Deputy or Assistant Commissioners (AC) must present justification for early recovery to their Principal Commissioner or Commissioner. If satisfied, the higher-level officer will record the reasons in writing and authorize early recovery from the taxpayer. (Money Control)

■ **May 2024 GST Collection Sees 10% YoY Growth** India's Goods and Services Tax (GST) collection for May 2024 reached INR 1.73 lakh crore, reflecting a 10% year-on-year increase. This comes after a record-breaking INR 2.10 lakh crore collected in

April 2024. The growth is attributed to a surge in domestic transactions (up 15.3%) and a decline in imports (down 4.3%). After accounting for refunds, the net GST revenue for May 2024 stands at INR 1.44 lakh crore, a 6.9% increase compared to last year. For the current financial year (FY 2024-25) up to May, the gross GST collection stands at INT 3.83 lakh crore, reflecting an 11.3% YoY increase. This growth is driven by a strong domestic market (up 14.2%) and a slight rise in imports (up 1.4%). (Financial Express)

■ **New Online Filing Requirements for Pan Masala and Tobacco Manufacturers** The Goods and Services Tax Network (GSTN) has introduced new filing requirements for manufacturers of Pan Masala and tobacco products. These manufacturers are required to submit information on their machines and raw materials through a dedicated GST portal. Two forms have been introduced - GST SRM-I: This form is for registering and reporting on the disposal of machinery used in the manufacturing process. GST SRM-II: This new form allows manufacturers to report details of inputs (raw materials) procured and outputs (finished goods) every month. Manufacturers of pan masala and tobacco products must now - Register their machinery on the GST portal using Form GST SRM-I, and file monthly reports using Form GST SRM-II. These reports will detail the quantity of raw materials used and finished goods produced each month. (Goods and Services Tax Network)

■ **GST Department Seeks Solution for Shared Spaces** India's Goods and Services Tax (GST) authorities are grappling with a challenge related to shared warehouses used by e-commerce companies. These warehouses store goods from multiple suppliers for final delivery, but current GST rules are causing headaches for both suppliers and warehouse operators. Suppliers register these shared warehouses as their additional place of business under GST rules. This results in multiple suppliers showing the same address, potentially triggering unnecessary scrutiny from tax officials who might suspect fraudulent registrations. Warehouses risk being held accountable for the GST defaults of individual suppliers stored within their facilities. GST authorities are exploring the concept of a shared workplace or coworking space model for e-



commerce warehouses. This would potentially treat the warehouse as a separate entity from the individual suppliers it houses. The e-commerce industry heavily relies on shared warehouses for efficient operations. The current system creates unnecessary administrative burdens and potential tax liabilities for both suppliers and warehouse operators. A clear solution is needed to ensure smooth e-commerce operations while maintaining proper tax compliance. The proposal for a shared workplace model will be discussed by the GST Council's law committee, comprised of central and state tax officers. If approved, this could lead to a revised system for registering and taxing shared warehouses used by e-commerce companies. (Economic Times)

(For queries or more information about goods and services tax, contact our colleague Ashish at ashish.gandhi@greenvissage.com)

## Income tax

■ **Date of Possession, Not Purchase Agreement, Determines Tax Benefit for New Home in India** The Income-Tax Appellate Tribunal (ITAT) in Mumbai has issued a crucial ruling for taxpayers claiming capital gains tax exemption when selling a property and reinvesting the proceeds in a new home. The date of possession of the new house, not the date of the purchase agreement, determines eligibility for the tax benefit under Section 54 of the Income Tax Act. The new house must be purchased within one year or two years after selling the old house. Alternatively, a new residential property can be constructed within three years of selling the old one. A non-resident couple sold their old house on February 10, 2011. The tax officer denied them the exemption because their purchase agreement for the new house was made on July 25, 2009 (outside the eligible window). ITAT ruled in favour of the couple, considering the possession date of the new house (February 2, 2011) which fell within the eligible period. (Economic Times)

■ **New Feature Improves Transparency in AIS** The Income Tax Department is making it easier for taxpayers to comply with filing requirements by introducing a new functionality in the Annual Information Statement (AIS). The AIS is an online

statement available on the income tax e-filing website that provides details of a taxpayer's financial transactions that may have tax implications. This information comes from various sources like banks, investment firms, etc. The new feature allows taxpayers to see the real-time status of their feedback on the information displayed in the AIS. Taxpayers can now track the progress of their feedback and ensure information accuracy. This functionality simplifies the process of resolving discrepancies in reported information. The AIS is an extension of the now-discontinued Form 26AS. While Form 26AS included details on property purchases, high-value investments, and tax deductions/collections, the AIS offers a wider range of information. (Financial Express)

(For queries or more information about income tax, contact our colleague Sneha at sneha.halder@greenvissage.com)

## Customs and foreign trade

■ **Bangladesh Temporarily Suspends Cabotage Rules for Foreign Vessels** The High Court of Bangladesh has suspended the country's cabotage rules for six months. These rules require foreign vessels to obtain a waiver certificate before transporting cargo in or out of Bangladesh. The Bangladesh Container Shipping Association (BCSA) argued that the waiver requirement hinders foreign shipping businesses. The BCSA believes certain sections of the Cabotage Act are misinterpreted, causing unnecessary hurdles. This is seen as a positive step for foreign shipping companies, potentially increasing vessel traffic in Bangladeshi ports. The Bangladesh Shipping Agents Association (BSAA) expressed relief, claiming the previous application of the act was unlawful and discouraged foreign ships from operating in Bangladesh. The High Court has questioned the legality of the mandatory waiver certificate requirement. A final decision on the Cabotage Act's validity is likely in the coming months. The Bangladesh Flag Vessel (protection of Interest) Act 2019 mandates that 50% of Bangladesh's seaborne cargo be carried by Bangladeshi-flagged vessels. However, exceptions exist for reciprocal trade agreements and situations where Bangladeshi ships are unavailable. Bangladesh currently has only eight container



ships flying its flag, while over 90 foreign vessels service its ports. The suspension is temporary, and the cabotage act's future remains unclear. (The Load Star)

■ **Palm Oil Imports Surge to Meet Rising Demand** India, the world's largest vegetable oil buyer, significantly increased its palm oil imports in May 2024. Imports jumped 74% to 7.63 million tonnes compared to May 4, 2023. This rise is attributed to a surge in domestic demand for edible oils. Crude palm oil (CPO) imports saw the highest increase, rising to 5.32 million tonnes from 3.48 million tonnes. Refined Palmolein imports also climbed significantly, reaching 2.26 million tonnes from 0.85 million tonnes. However, crude palm kernel oil (CPKO) imports witnessed a decline. Sunflower and soybean oil imports also rose in May 2024 compared to the previous year. Global edible oil prices rose due to supply disruptions from major exporters. Rising domestic mustard seed prices may have increased demand for palm oil as a substitute. Palm oil imports are likely to remain lower for the entire 2023-24 marketing year compared to the previous year. Current edible oil stocks in India are sufficient. Indonesia and Malaysia are the main suppliers of palm oil to India. (Economic Times)

■ **Traders Demand Resumption of Border Trade with China** Indian traders, particularly those from the Bhotia tribe, are requesting the Indian government to reopen the Lipulekh Pass for border trade with China. The trade route was closed due to the COVID-19 pandemic in 2019. Traders are concerned about their goods left behind in Tibet and the potential loss of trade opportunities. China recently opened trade routes on its border with Nepal, raising concerns among Indian traders that they might be left out. The Lipulekh Pass has facilitated trade between India and China since 1992. Over 450 Indian traders regularly used this route. Traders claim to have left behind goods in Tibet. China's opening of trade routes with Nepal has heightened anxieties amongst Indian traders. There are underlying border tensions between India and China contributing to the closure. (Economic Times)

(For queries or more information about customs and foreign trade, contact our colleague Adnan at [adnan.ginwala@greenvissage.com](mailto:adnan.ginwala@greenvissage.com))

## Corporate and allied laws

■ **SEBI to not freeze MF portfolios, and demat accounts over non-submission of nominee** The decision has been taken based on representations from the market participants, citing a need for ease of compliance and investor convenience. Investors will be able to avail of any service request from their mutual fund registrar and transfer agent (RTA), even if a 'choice of nomination' has not been submitted by those unit holders. Investors will be able to avail of any service request from their mutual fund registrar and transfer agent (RTA), even if the 'choice of nomination' has not been submitted by those unit holders. Market regulator SEBI has issued a circular stating that it will not freeze the mutual fund portfolios and demat accounts of investors for non-submission of nomination. The decision - for existing investors and unitholders - has been taken based on representations from the market participants, citing the need for ease of compliance and investor convenience. Investors holding securities in physical form shall be eligible for receipt of dividends, interest payment or redemption payment, as well as to lodge grievances, SEBI's circular said. (Money Control)

■ **SEBI proposes stricter rules for stock derivatives trading in India** India's securities regulator, SEBI, is proposing new rules to tighten regulations on derivatives trading on individual stocks. This is being done to reduce the risk of market manipulation and to improve investor protection. The recent surge in options trading, particularly by retail investors has led to concerns about the potential for manipulation in less liquid stocks. Now, stocks must be traded on a minimum percentage of trading days (specific timeframe not mentioned). The minimum level of trading activity by derivatives traders in the stock minimum requirements for average daily turnover (cash market) and premium turnover (derivatives market, and limits on the number of open contracts for a particular stock, are some of the other provisions. The proposals are currently in the discussion paper stage and could be modified before being finalized. (Money Control)

(For queries or more information about corporate and allied laws, contact our colleague Adnan at [adnan.ginwala@greenvissage.com](mailto:adnan.ginwala@greenvissage.com))



## Finance and banking

■ **Banks Revise Fixed Deposit Terms and Rates Following RBI Rule Change** In response to a recent rule change by the Reserve Bank of India (RBI) regarding fixed deposits, nine major banks have adjusted their fixed deposit (FD) interest rates and terms. The RBI's proposal involves redefining bulk fixed deposits, where deposits of INR 3 crore and above will now be classified as such, up from the previous threshold of INR 2 crore. This revision means that individual deposits ranging between INR 2 crore and INR 3 crore will now be considered retail fixed deposits, with distinct interest rates compared to bulk deposits. (Economic Times)

■ **RBI maintains status quo on interest rates, revises growth forecast upwards** The Reserve Bank of India's Monetary Policy Committee (MPC) decided to keep interest rates unchanged for the 8th consecutive time. The repo rate, the benchmark rate for borrowing by commercial banks from the RBI, remains at 6.5%. The MPC also maintained its stance of withdrawing monetary accommodation. Governor Shaktikanta Das highlighted that while inflation is easing and economic growth is firming, food inflation remains a concern. The MPC voted 4:2 to maintain the repo rate and stance of withdrawing accommodation. CPI inflation is projected at 4.5% for FY25, with some relief expected from a potential above-normal monsoon. RBI revised its GDP growth forecast for FY25 to 7.2% from 7%, citing expectations of healthy consumption and investment activity. The RBI Governor emphasized that their actions are primarily driven by domestic growth-inflation conditions. The Indian banking system and NBFCs are reported to be in a sound financial position. (Live Mint)

■ **RBI places restrictions on two more co-operative banks** The Reserve Bank of India (RBI) has imposed business restrictions on two co-operative banks - The Karwar Urban Co-operative Bank and The Amanath Co-operative Bank - citing material supervisory concerns. These restrictions will be in place for six months starting from June 12. Both banks cannot grant or renew loans, accept fresh deposits or make any investments. The Karwar Urban Co-operative Bank cannot allow any withdrawals from savings, current or other deposit accounts.

However, they can allow setting off loans against deposits. The Amanath Co-operative Bank depositors can withdraw a maximum of INR 60,000 from their accounts. Eligible depositors can claim deposit insurance up to INT 5 lakh from the Deposit Insurance and Credit Guarantee Corporation (DICGC) within 90 days. Both banks can incur expenditures for essential items like salaries, rent, and electricity bills. (Money Control)

(For queries and more information about banking and finance, contact our colleague Kethaan at [ksparakh@greenvissage.com](mailto:ksparakh@greenvissage.com))

## Accounting and management

### In Focus: Penetration Pricing

Penetration pricing is a marketing strategy used by businesses to launch themselves into a new market with a low introductory price. The goal is to attract a large number of customers quickly and gain a significant market share. The key aspect is offering the product or service at a price point that's significantly lower than established competitors or even below the initial production cost.

A new streaming service might offer a free trial period or a significantly lower introductory price compared to established competitors to attract users. A company launching a new tech gadget might price it lower initially to gain market share and establish itself before competitors release similar products. Grocery store chains might use penetration pricing for new organic food lines to get customers to try them, even though the profit margin on organic products is typically higher. These are all examples of penetration pricing strategies.

The hope is that the low price will entice a large number of customers to try the product, leading to brand awareness and customer loyalty. Ideally, these customers will stick around even if the price increases later. By attracting a large initial customer base, the company can benefit from economies of scale, potentially lowering production costs in the long run.

Penetration pricing can be risky if not managed carefully. Selling products at a loss for too long can be unsustainable.



Businesses need to have a plan for gradually raising prices to a profitable level once they've established themselves in the market. The success of penetration pricing hinges on building customer loyalty. The low price should be a way to introduce the product's value, not the only reason for customers to choose it.

(For queries or more information about accounting, contact our colleague Rahul at [rahul.mundada@greenvissage.com](mailto:rahul.mundada@greenvissage.com))

## Payroll and personal finance

### ■ SEBI Launches Saarthi 2.0 App to Empower Investors

India's securities regulator, SEBI, has launched a new mobile app called Saarthi 2.0 to promote financial literacy and empower investors. This user-friendly app aims to simplify complex financial concepts through various tools and resources. Saarthi 2.0 features financial calculators, educational modules explaining investment products like mutual funds and ETFs, and the process of trading stocks. It also guides users on grievance redressal mechanisms and online dispute resolution for investment-related issues. Recognizing the prevalence of misinformation online, SEBI emphasizes the app's role as a reliable and objective source of investment information. SEBI targets young investors starting their financial journeys and highlights the app's dynamic content to keep pace with evolving market conditions. (Business Insider)

### ■ Government Announces General Provident Fund Interest

**Rate** The Government of India has declared the interest rate for the General Provident Fund (GPF) for the April-June quarter of 2024. Employees and subscribers under the GPF scheme will earn interest at a rate of 7.6% for this quarter. This

announcement comes amidst fluctuating economic conditions and efforts to maintain stability in financial sectors. The interest rate for the GPF, a popular investment avenue for government employees, remains competitive compared to other saving schemes. The interest rate is set quarterly and is subject to change based on economic factors and prevailing market conditions. The GPF is a significant component of the retirement savings for many government employees, providing them with a secure and guaranteed return on their investments. Government employees and subscribers can continue to benefit from the General Provident Fund's steady returns and security, contributing to their long-term financial planning and retirement goals. (Economic Times)

### ■ Government Extends Deadline for Free Aadhaar Updates

The government has extended the deadline for updating Aadhaar details free of charge from June 14, 2024. The latest deadline to update Aadhaar details for free is now September 14, 2024, according to the Unique Identification Authority of India (UIDAI) website. This extension aims to facilitate the updating process for individuals who require adjustments to their Aadhaar information. Citizens can update their Aadhaar details online through the official UIDAI website. The process involves logging in with an Aadhaar number and OTP, verifying identity and address details, and uploading relevant documents. Additionally, procedures for updating Aadhaar photos require a visit to the nearest Aadhaar Enrolment Centre. Biometric information such as iris, fingerprints, and facial photographs cannot be uploaded online. Date of birth can be updated once, with a maximum range of plus or minus three years from the recorded date of birth. Gender details can also be updated once. (Economic Times)

(For queries or more information about payroll and personal finance, contact our colleague Snigdha at [kumari.snigdha@greenvissage.com](mailto:kumari.snigdha@greenvissage.com))



# BUSINESS NEWS

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## Government

### ■ Passenger Vehicle Sales Dip Due to Heat, Elections

Passenger vehicle sales in India declined slightly (1%) year-on-year in May 2024. The Federation of Automobile Dealers Associations (FADA) attributed the dip to factors like scorching summer heat, elections in some states, and a lack of new vehicle launches. Despite improved supply and ongoing discounts, fewer customers visited showrooms due to the heat, leading to a drop in walk-in sales by around 18%. FADA President Manish Raj Singhania also pointed out the intense competition and lacklustre marketing efforts by automakers as contributing factors. In contrast, two-wheeler sales witnessed a 2% increase, likely due to positive rural demand driven by good rains in some regions. Three-wheeler and commercial vehicle sales also saw growth of 20% and 4% respectively. Looking ahead, FADA holds a cautiously optimistic outlook. The formation of new governments is expected to improve market sentiment, while better supply and positive movement in key sectors like cement might boost sales. However, factors like extreme weather, school reopenings, and ongoing challenges in the passenger vehicle segment could dampen consumer enthusiasm. (Business Insider)

■ **Life Insurance to Offer Surrender Value from Year One** The Insurance Regulatory and Development Authority of India (IRDAI) has implemented a new regulation requiring life insurance companies to offer a surrender value from the first year of a policy. This move aims to increase transparency and potentially benefit policyholders, but it could also impact insurers' profits. Previously, some guaranteed return products offered no surrender value in the first year. Under the new rule, insurers must now provide a special surrender value (SSV) after the first year, as long as the first full premium has been paid. For limited-pay policies (less than five years) and single-premium policies, the SSV becomes available immediately upon receiving the full premium. This change might lead to lower profit margins for insurers, as they will have to pay out benefits earlier. However, some industry experts believe the impact will be minimal since most policies stay active beyond the first year. The IRDAI has also set minimum requirements for the SSV, ensuring it covers the expected value of future

benefits and accrued bonuses. Additionally, insurers can offer higher guaranteed surrender values (GSVs) than the minimums set by the regulation. These GSVs can vary based on factors like premium amount, policy term, and the time of surrender. (Economic Times)

■ **India's Retail Inflation Falls to 1-Year Low in May** India's retail inflation, measured by the Consumer Price Index (CPI), dipped to a one-year low of 4.75% in May 2024. This is a marginal decrease from 4.83% in April 2024. The decline is attributed to slightly lower prices for some food items, though food inflation remains high at 8.69%. This is a small improvement from 8.70% in April. Overall inflation has been moderating since February 2024, staying within a narrow band between 4.8% and 5.1%. The government targets a CPI inflation rate of 4% with a 2% tolerance on either side. The Reserve Bank of India (RBI) had previously projected a CPI inflation of 4.5% for the financial year 2024-25, with some variation across quarters. The central bank uses retail inflation data as a key factor in determining its bi-monthly monetary policy decisions. (Business Insider)

## Economies

■ **G7 Plans Semiconductor Group to Coordinate Supply Chains** Leaders from the Group of Seven (G7) are poised to unveil plans for a new group aimed at coordinating the semiconductor supply chain, crucial to the global economy. The initiative, revealed at the ongoing G7 meeting in southern Italy, will establish a point-of-contact group to oversee subsea cable connectivity, ensuring the security and resilience of internet connections between nations. The semiconductor group's formation comes in response to disruptions in chip supply chains during the COVID-19 pandemic, highlighting the need for coordinated efforts to prevent future shortages. With semiconductor demand expected to surge, particularly with the rise of artificial intelligence applications, securing access to these critical components has become a focal point, amidst ongoing trade tensions with China. Both Europe and the US are actively working to bolster domestic chip production, while China aims to enhance its capabilities despite trade restriction.

Additionally, attention is being directed towards subsea cable infrastructure following recent outages, underscoring the challenges in protecting and maintaining these vital communication lines. Delays in repairing cables damaged in the Red Sea earlier this year highlight the complexities involved, including disputes over access and logistical hurdles. (Economic Times)

■ **Fed Holds Rates Steady, Signals Possible Rate Cut by September** The Federal Reserve decided to hold interest rates steady but signalled a possible rate cut by September. The Federal Open Market Committee (FOMC) also released its Summary of Economic Projections, which now forecasts only one interest rate cut for 2024. Fed Chair Jerome Powell acknowledged the projection is subject to change based on economic data. He said a rate cut could happen as early as September if upcoming data shows inflation is under control. Powell emphasized the importance of data-driven decisions to avoid a situation where rates need to be raised again later. While some lawmakers have urged for a rate cut to address inflation's strain on American finances, Powell argues that delaying the cut is necessary to control inflation in the long run. He highlighted the negative impact of high inflation, especially on low-income earners. (Business Insider)

■ **EU Imposes Tariffs Up to 38% on Chinese Electric Vehicles** The European Union (EU) announced on Wednesday that it would impose higher tariffs on electric vehicles (EVs) imported from China. This decision follows an investigation launched in October 2023 that concluded Chinese EVs benefit from unfair subsidies, harming European EV producers. The EU will introduce provisional tariffs ranging from 21% to 38.1% on Chinese EVs starting July 4. These tariffs are intended to counter the advantage Chinese EV makers gain from government subsidies. The EU claims these subsidies create unfair competition and threaten the European EV industry. Companies that cooperated with the investigation received a 21% tariff. Companies that did not cooperate face a steeper 38.1% tariff. Individual tariffs were set for major Chinese EV producers – BYD at 17.4%, Geely at 20%, and SAIC at 38.1%. Tesla may receive a different tariff rate in the final ruling after a substantiated request is reviewed. China's Ministry of

Commerce called the decision a "protectionist act" lacking legal basis and vowed retaliation. EV maker Nio expressed opposition to the tariffs, claiming they hinder global environmental progress. Trade tensions between the EU and China regarding EVs have been simmering for months. The EU accuses China of unfair subsidies and dumping practices. (CNBC)

■ **US Expands Sanctions on Russia, Targets Chip Sales from China** The United States has significantly broadened sanctions on Russia to cripple its war effort in Ukraine. The US is targeting Chinese companies selling semiconductors to Russia, aiming to restrict the Russian military's access to crucial technology. The US Treasury Department is raising the risk of sanctions for foreign financial institutions dealing with Russia's war economy. This could cut off Russian access to the global financial system. The US is limiting Russia's ability to exploit US software and information technology services. The US sanctioned over 300 individuals and entities across Russia, Asia, Europe, and Africa. The Commerce Department is targeting shell companies in Hong Kong diverting semiconductors to Russia and expanding its export control lists. The US sanctioned key parts of Russia's financial infrastructure, including the Moscow Exchange, which may disrupt financial transactions. The US aims to align with other G7 nations to further isolate and pressure Russia. (Reuters)

## Corporates

■ **Axis Bank Slapped with 1.66 Crore Fine Over Fraudulent Account** The Financial Intelligence Unit (FIU) has imposed a hefty fine of ₹1.66 crore on Axis Bank for its failure to detect a suspicious account linked to the National Security Guard (NSG). Allegations suggest an Axis Bank employee colluded with others to create this fraudulent NSG account, presumably for money laundering purposes. The bank's shortcomings include a lack of adequate systems to identify and report suspicious transactions related to the account, insufficient investigation into dubious activities, and a failure to verify the employee's authorization to represent the NSG. In response to these violations, FIU has taken stringent actions. Apart from

the substantial fine, Axis Bank is directed to bolster its internal controls. This includes a thorough review of transaction monitoring systems, stricter employee screening protocols, improved data-sharing mechanisms with regulatory bodies, and the implementation of continuous training programs to ensure regulatory compliance. The case, which originated in Gurugram, Haryana in 2021, is under investigation by local authorities and the Enforcement Directorate (ED). Previously, ED had seized assets totalling INR 45 crore belonging to an accused NSG officer and his family members. Interestingly, one of the implicated family members is a sister who held a managerial position at Axis Bank.

■ **Taj Hotels Crowned World's Strongest Brand** Taj Hotels, owned by the Indian Hotels Company (IHCL), has secured the title of the world's strongest hotel brand according to Brand Finance's "Hotels 50 2024" report. This achievement comes alongside its ranking as the second-fastest growing brand globally, following only Sheraton's Four Points. Taj's brand value has skyrocketed to USD 545 million, solidifying its position as a leader in the hospitality industry. Puneet Chhatwal, IHCL's CEO, expressed his delight at the recognition, highlighting Taj's 120-year legacy and its dedication to showcasing Indian hospitality on a global scale. This award underscores the positive perception of the Taj among guests and the unwavering commitment of its staff. The brand's Brand Strength Index (BSI) score reached an impressive 92.9 out of 100, earning it the highest possible AAA+ rating from Brand Finance. This exceptional score reflects Taj's strong performance across various metrics like brand awareness, customer preference, and reputation. Taj's financial performance further reinforces its success. The company reported a significant 29.36% growth in consolidated profit for the quarter ending March 2024. While Taj reigns supreme in brand strength, Hilton retains its title as the world's most valuable hotel brand for the ninth year running, boasting a brand value of USD 11.6 billion. (Business Standard)

■ **HUL Pioneers Palm Oil Reduction in Soaps** Hindustan Unilever Limited (HUL), India's leading consumer goods company, is making a significant shift by reducing palm oil content in its soaps by 25%. This initiative, a first of its kind

globally, aims to tackle two key challenges: fluctuating commodity prices and environmental concerns. The new technology, named Stratos, took HUL nearly five years to develop. It replaces palm oil with a proprietary blend of plant-derived polysaccharides, vitamin mixes, and natural fatty acids. This not only reduces palm oil usage by a quarter but also enhances product performance. HUL, the market leader controlling over 38% of India's massive ₹24,000 crore soap market, sees this innovation as a strategic advantage. Furthermore, this move helps HUL manage the volatility of commodity prices, a major concern for consumer goods companies. Palm oil and its derivatives, accounting for over 20% of HUL's input costs, are particularly susceptible to price fluctuations. Traditionally, soap quality in India has been linked to the total fatty matter (TFM) content. However, HUL emphasizes that a soap's performance depends more on the specific types of fats used rather than the total amount. (Economic Times)

■ **Reliance Pushes for Rail-Linked Pipeline Tariffs** Reliance Industries is advocating for a change in how petroleum product pipeline tariffs are set in India. The company disagrees with the proposed annual escalation of 3.4% and instead suggests pegging the tariff to railway freight rates. The Petroleum and Natural Gas Regulatory Board (PNGRB) is drafting regulations to determine pipeline tariffs. The draft proposes a 3.4% annual increase for pipelines commissioned before 2010. Reliance believes that with a 3.4% annual escalation, pipeline tariffs will exceed rail freight rates by 2029. This would make pipelines less attractive to users, hindering a shift from rail transport. They propose setting the tariff at 75-80% of rail freight rates to incentivize pipeline usage. Other oil marketing companies (OMCs) have varying opinions on the proposed escalation rate. Hindustan Petroleum (HPCL) feels 3.4% might not recover investments and suggests a 5% increase. GAIL (India's largest gas pipeline operator) proposes linking the tariff to the wholesale price index or natural gas transmission tariff. Indian Oil Corporation (IOCL) seeks a review of the proposed transportation loss percentage. (Economic Times)

## Startups

■ **Ather Energy to Set Up Third Plant in Maharashtra** Electric vehicle manufacturer Ather Energy is reportedly planning to build its third plant in Aurangabad, Maharashtra according to a report in the Business Standard. The new facility, expected to involve an investment of INR 1,000 crore, will be constructed in phases across 100 acres located in Bidkin town. Ather's existing plants, an assembly unit and a battery plant, are both situated in Hosur, Tamil Nadu. This development comes soon after Hero MotoCorp acquired an additional 2.2% stake in Ather Energy for USD 124 crore earlier this month. Ather Energy, founded in 2013 by Tarun Mehta and Swapnil Jain, is a Bengaluru-based company engaged in the design, manufacturing, sales, service, and software development of electric vehicles and charging infrastructure. The company also deals with storage, distribution, and management systems related to electric power, including battery energy, and other ancillary services. Ather Energy reported a revenue of USD 1,753 crore in FY24 and is reportedly considering an initial public offering (IPO) early next year. As per Bloomberg News reports from February, Ather has been selecting banks to handle the IPO, which could value the company at around USD 2 billion. Talks suggest the company might raise USD 400 million through the share sale.

■ **360 One acquires ET Money** Wealth Management firm 360 One acquired Times Internet's wealth management platform ET Money for USD 44 million. This deal strengthens 360 One's position in the Indian wealth management market and broadens ET Money's customer reach. The acquisition involves a mix of cash payments (INR 86 crore) and new shares issued by 360 One. However, it still needs approval from Indian regulatory bodies including SEBI and RBI. 360 One is acquiring two entities from Times Internet - Moneygoals Solutions Limited (which operates ET Money) and Banayantree Services Limited (which runs ET Money Genius). While ET Money focuses on business advisory and product management, ET Money Genius distributes financial products and offers investment advisory services. ET Money boasts over 9 lakh transacting clients with a significant portion generating

revenue. Through its advisory service, ET Money Genius manages over INR 1,200 crore in assets for more than 76,000 paying clients. This acquisition marks the seventh subsidiary sold by Times Internet in the past three years. (Entrackr)

■ **Go Digit Reports Strong Revenue Growth and Profit Surge** Go Digit General Insurance, a publicly traded company in India, witnessed significant financial growth in FY24. Revenue from operations (net premium) grew 37.4% to Rs 7,096 crore, compared to INR 5,164 crore in FY23. Go Digit offers motor, travel, property, and health insurance products. Profits soared fivefold to INR 182 crore in FY24, compared to INR 36 crore in FY23. The company saw a 43.8% increase in claims settled, reaching INR 4,990 crore in FY24. Commission and brokerage expenses surged 13 times to INR 1,888 crore in FY24. Overall expenditure grew 36.1% to INR 7,958 crores in FY24. The company's market capitalization stands at INR 31,239 crore. (Entrackr)

## Conglomerates

■ **Sony Pictures Buys Alamo Drafthouse Theater Chain** Sony Pictures has acquired Alamo Drafthouse, the seventh-largest movie theatre chain in North America. This marks the first time a major Hollywood studio has purchased a theatre chain since the termination of an antitrust decree in 2020. The Paramount Consent Decrees, enacted in 1948, prohibited major studios from owning theatres to prevent monopolies. However, the ruling only applied to certain studios, allowing Sony's Columbia Pictures to acquire a minority stake in a small theatre chain in the late 1980s. Alamo Drafthouse, known for its dine-in experience, will continue to operate independently under its current CEO. The company's 35 theatres and headquarters will remain in Austin, Texas. Sony Pictures has created a new division, Sony Pictures Experiences, to oversee Alamo Drafthouse. This acquisition comes after Alamo Drafthouse filed for bankruptcy in 2021 due to the pandemic. The theatre chain was then acquired by a private equity firm. However, some franchise locations have recently closed. Both Sony Pictures and Alamo Drafthouse expressed enthusiasm about the deal. Sony is committed to the theatrical experience and

welcomes content from all studios. Alamo Drafthouse views Sony as a perfect partner to innovate and provide exciting opportunities for moviegoers. (CNBC)

■ **Amazon and Vrio Team Up to Launch Satellite Internet in South America** Amazon and Vrio, a telecommunications firm managing DirecTV and Sky Brasil in Latin America, are joining forces to launch satellite internet services in seven South American countries. This move places them in direct competition with Elon Musk's Starlink, another satellite internet provider. Led by a former Starlink employee, Project Kuiper will utilize low Earth orbit satellites to deliver internet

access. The initiative aims to bridge the gap for around 200 million people in the region with limited or no internet access, considering South America's geographical challenges and infrastructure limitations. The service is expected to be operational by mid-2025, with Argentina being the first beneficiary. Details regarding the planned launch of 3,236 satellites will be revealed in the coming months. The company committed USD 10 billion to Project Kuiper in 2019. Both Amazon and Vrio aim to provide equal broadband access opportunities across urban, suburban, and rural areas. (Reuters)



# ECONOMIC INDICATORS

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# ECONOMIC INDICATORS

## ■ Key Economic Indicators

Indicator	As on	Current	Prior
GDP Growth (%)	Mar-24	7.80	8.60
Inflation (%)	May-24	4.75	4.83
Unemployment (%)	Mar-24	7.64	8.01
Trade Balance (\$bn)	Apr-24	(19.10)	(15.60)
Business confidence	Mar-24	130.00	135.00
Manufacturing PMI	May-24	57.50	58.80
Services PMI	May-24	60.20	60.80

## ■ Global Indices

Index	Country	%
NIFTY 50	India	5.51
BSE SENSEX	India	5.26
INDIA VIX	India	(30.16)
NIFTY BANK	India	4.48
DOW JONES	USA	(1.73)
NASDAQ	USA	5.83
S&P 500	USA	2.95
FSTE 100	UK	(2.43)
NIKKEI 225	Japan	1.87
SHANGHAI COM	China	(3.52)
MOEX	Russia	(8.26)
CAC 40	France	(4.65)
DAX	Germany	(1.33)
S&P ASX 200	Australia	(0.24)
BOVESPA	Brazil	(5.05)
KOSPI	South Korea	0.03
HANG SENG	Hong Kong	(6.16)

## ■ Commodities Future

Commodity	Expiry	Price	%
Gold	Aug-24	71,531.00	(0.79)
Silver	Jul-24	89,290.00	4.98
Crude Oil	Jul-24	6,572.00	(0.29)
Natural Gas	Jun-24	258.10	38.24
Aluminum	Jun-24	232.45	(0.24)
Copper	Jun-24	862.65	(1.70)
Cotton	Jul-24	56,020.00	(2.23)

## ■ Currency Exchange Rates

Pair	Current	Prior	%
INR/1 USD	83.56	83.52	(0.05)
INR/1 GBP	106.51	104.64	(1.79)
INR/1 EUR	89.79	89.98	0.21
INR/100 YEN	53.15	53.60	0.84

## ■ Cryptocurrencies

Pair	Crypto	Price	%
BTC/USD	Bitcoin	67,894.00	8.58
ETH/USD	Ethereum	3,540.00	19.59
USDT/USD	Tether	1.00	(0.02)
BNB/USD	Binance	613.99	3.43

## ■ Small Savings Schemes

Scheme	Current	Prior	%
SSCS	8.20	8.20	-
SSA	8.20	8.20	-
NSC	7.70	7.70	-
PPF	7.10	7.10	-
KVP	7.50	7.50	-



For queries and feedback, please write to us at [info@greenvissage.com](mailto:info@greenvissage.com)

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